COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
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IN REPLY PLEASE
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August 3, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas, Secretary
Office of the Secretary
Federal Communications Commission
Washington, D.C. 20554

RE: FCC ~~Docket~~ No. 98-108
CC Docket No. 98-81
ASD File No. 98-64

Dear Ms. Salas:

Enclosed herewith, please find the original and nine (9) copies of the Comment on on behalf of the Pennsylvania Public Utility Commission. I have enclosed in addition, a copy of the comment on a read-only disc in WordPerfect 5.1 and an additional copy to be time-stamped.

Sincerely yours,

David E. Screven

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Enclosures

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the Matter of 1998 Biennial Regulatory Review - Review of Accounting and Cost Allocation Requirements: United States Telephone Association Petition for Rulemaking	FCC 98-108 CC Docket No. 98-81 ASD File No. 98-64

REPLY COMMENT OF THE
THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

I. INTRODUCTION

Pursuant to a Notice of Proposed Rulemaking (NRPM) released June 17, 1998, the Federal Communications Commission (FCC) proposed revisions to the FCC's accounting and cost allocation rules.[1] The Pennsylvania Public Utility Commission (PaPUC) submits this Reply Comment to the FCC. The PaPUC is also submitting a Motion to File Ex Parte Comments in AAD File No. 98-22 and AAD File No. 98-23 given the interplay between the results in these two proceedings. A copy of that Ex Parte Comment is

[1]The Pennsylvania Public Utility Commission recognizes the importance of these accounting and cost allocation rules. The Cost Allocation Rules provide guidance on the allocation of joint and common costs among regulated and nonregulated enterprises of a telephone company. This function becomes more important as competition evolves in the telecommunications industry.

attached as "Appendix A" to this Reply Comment for incorporation into the record in this proceeding as a stand-alone exhibit.

Generally, the PaPUC supports the FCC's attempt to structure accounting and cost allocation rules that reflect changes in the telecommunications industry. However, the PaPUC questions the wisdom of relaxing the regulatory requirements for large carriers given the recent round of mergers, unresolved issues pertaining to competition, the potential for cross-subsidization, and published reports alleging substantial disinvestment in the nation's public network. Without the kind of information presented by the FCC's Accounting and Cost Allocation rules, as well as the ARMIS reports, these episodic allegations could become standard industry practice and incapable of independent state analysis using credible carrier-provided information.

II. THE PENNSYLVANIA POSITION

1. The FCC solicits comment in several areas. The FCC proposes to raise the threshold significantly for required Class A companies thereby allowing mid-sized carriers currently required to use Class A accounts to use streamlined Class B accounts. In addition, the FCC proposes to establish less burdensome Cost Allocation Manual (CAM) procedure for mid-sized carriers and to reduce the frequency of independent

audits. Finally, the FCC proposes to reduce the Uniform System of Accounts (USOA) accounting requirements by consolidating or eliminating some accounts.

2. The PaPUC supports reduced requirements for mid-size LECs with three qualifications. These qualifications concern the FCC's continued oversight capability, modification of the threshold whereby a mid-size carrier avoids the Class A reporting requirements, and preservation of the states' regulatory rights governing mid-size carriers.

3. The first reservation concerns the FCC's continued oversight capability. The FCC claims that reduced reporting requirements are justified because of a "tentative" conclusion that the FCC can continue the oversight necessary to prevent anti-competitive behavior, cross-subsidization, and disinvestment by mid-size carriers.

4. The PaPUC believes that reduced accounting and cost allocation requirements make sense only so long as the FCC can sustain its "tentative" conclusion. Otherwise, mid-size carriers could be tempted to engage in anti-competitive behavior, cross-subsidization, or disinvestment based on the belief that the level of scrutiny accorded their operations is far less than that accorded Class A carriers. The fact that the harm may be experienced by fewer citizens in less populated areas not served by a Class A carrier does not justify opening the door to such results.

5. Consequently, the PaPUC urges the FCC to include an express caveat that the FCC retains the authority to impose Class A accounting and cost allocation requirements. That change could be imposed on an individual mid-size carrier or industry-wide. The imposition would take place *sua sponte*, in response to changed circumstance, or at the request of a state commission.

6. Second, the PaPUC agrees with the FCC that mid-size carriers have fewer transactions in competitive services and products than Class A Carriers.

7. However, the paucity in transactions does not mean that the temptations to discriminate, cross-subsidize, or disinvest are reduced. If anything, a mid-size carrier may be even more tempted to discriminate, cross-subsidize, or disinvest. That is because the impact of fewer transactions may be far more extensive, and more of a temptation, to a mid-size carrier.

8. For example, a mid-size carrier with 19,000 to 212,000 access lines and significant revenues could be tempted to engage in discrimination, subsidization, and disinvestment in overall services if that is part of an institutional imperative to preserve service to a major consumer, such as a university town or industrial customer in a rural

county, with several thousand access lines. This example is not intended to disparage mid-size carriers or suggest that their modus operandi is different from a Class A carrier. The PaPUC uses this example to underscore the very real financial and institutional pressures a mid-size carrier confronts when dealing with larger entities flanking their service borders or, even more telling, a locally minute yet nationally immense competitive access provider targeting a large customer such as a university town or industrial facility.

9. Consequently, the PaPUC urges the FCC to retain the express authority to impose Class A accounting and cost allocation requirements on mid-size carriers, either individually or industry-wide, in response to changed circumstances, *sua sponte,* or at the request of a state commission.

10. The PaPUC also urges the FCC to limit a mid-size carrier's resort to the Class B accounting and cost allocation requirements to a mid-size carrier whose percentage of transactions involving competitive services and products, as well as the percentage of overall revenues derived from those transactions, are less than 50% of those applicable to the smallest Class A Carrier.

11. The third qualification concerns the preservation of state authority over the accounting and cost allocation requirements of mid-size carriers. The FCC's regulatory flexibility must not supplant a state's treatment of a mid-size carrier. That is because the states, given their proximity to and knowledge of the local situations, may want a greater degree of accountability for mid-size carriers either individually or industry-wide.

12. For example, Pennsylvania's Chapter 30 incorporates a 50,000-access-line boundary between small carriers eligible for streamlined regulation and ineligible larger carriers. Pennsylvania has carriers with access line counts that range from 168,589 to 3,912,445 in 1997.

13. The FCC's approach must expressly permit states to require Class A reporting requirements on mid-size carriers, either individually or industry-wide, for mid-size carriers with more than 50,000 access lines but less than those of the smallest Class A carrier. The FCC's approach should also expressly allow states to require Class A reporting requirements on mid-size carriers, either individually or industry-wide, as a matter of independent state law. These options are necessary to permit states, with intimate knowledge of the local fauna, to exercise the regulatory oversight they need to promote competition, prevent cross-subsidization, and prohibit network disinvestment.

14. The PaPUC also disagrees with SBC's proposal to substitute the Generally Accepted Accounting Principles (GAAP) for Class A and Class B carriers. The PaPUC believes that the FCC's Accounting and Cost Allocation requirements are far more accurate and reflective of telecommunications reality than accounting practices designed for already-competitive industries.

15. The PaPUC urges the FCC to recognize the continuing role that Part 32 accounting rules play in promoting competition, preventing cross-subsidization, and prohibiting disinvestment in the public network. The PaPUC urges the FCC to retain the accounting treatment of revenues from pole attachments given the critical role pole attachments, and the costs for those attachments that are reflected in accounting revenues, plays in promoting competition.

16. The PaPUC does not believe that the reduced accounting and cost allocation requirements proposed for Class B carriers, which serve 10% of the local telecommunications market according to the FCC, is relevant for the RBOCs and GTE that serve the remaining 90%.[2] The PaPUC particularly urges the FCC to dismiss Arthur Andersen's recent suggestion that the FCC "simplify" all carrier accounting down to the

[2] This observation is underscored by the recent spate of RBOC acquisitions including, for example, the recent Bell Atlantic - GTE proposed agreement.

Class B level. That recommendation, if adopted, will reduce the FCC and states' ability to monitor accounting and cost allocation behavior that is harmful to competition.[3]

17. The PaPUC also disputes the FCC's proposal to dilute the CAM requirements for Class B carriers. For the reasons set forth above, the PaPUC rejects the conclusion that fewer competitive services and products necessarily translates into less incentives to discriminate, cross subsidize, or disinvest in the network. The PaPUC believes that reduced Accounting and Cost Allocation approaches, even if adopted, should not extend to CAM requirements.

18. The PaPUC supports the FCC's proposal to reduce the frequency of independent audits for Class B carriers. However, Class A carriers should continue to be audited at the current level. The PaPUC also urges the FCC to reject the use of "attest audits" since they are far less extensive and thorough than the current methodology.

19. The PaPUC supports the proposed consolidation of Accounts 2114, 2115, and 2116 for Class B carriers. The PaPUC also supports the proposed consolidation of Accounts 6114, 6115, and 6116 for Class B carriers.

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[3]"Large LECs Propose Accounting Simplification," *64 Telecommunications Reports 29, (July 20, 1998)*, pp. 44-45.

20. The PaPUC urges the FCC to reject the request to alter the current accounting treatment of Nonregulated Revenues by consolidating all nonregulated revenues into one account for Class A carriers. Such a consolidation will make it virtually impossible for the states and the FCC to determine whether a Class A Carrier's experiences in nonregulated ventures is generating pressure for anti-competitive behavior, cross subsidization, or disinvestment in the national network. More importantly, such a congomeration of nonregulated accounting makes it impossible to differentiate between reversals on investments in overseas telecommunications ventures from advances in domestic revenues from Inside Wiring or Directory services.

21. The PaPUC thanks the FCC for providing it with an opportunity to submit this Reply Comment and Appendix A.

Respectfully submitted,

D.E. Screven

David E. Screven, Assistant Counsel
Pennsylvania Public Utility Commission
Frank Wilmarth, Deputy Chief Counsel
Pennsylvania Public Utility Commission
Bohdan R. Pankiw, Chief Counsel
Pennsylvania Public Utility Commission

Dated: August 3, 1998

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	AAD File No. 98-22
Proposed Modifications to ARMIS	)	
Service Quality Reporting Requirements	)	
	)	
Proposed Modifications to ARMIS	)	AAD File No. 98-23
ARMIS 43-07 Infrastructure Report	)	
	)	

In the Matter of	)	
	)	FCC 98-108
1998 Biennial Regulatory Review -	)	CC Docket No. 98-81
Review of Accounting and Cost	)	ASD File No. 98-64
Allocation Requirements:	)	
	)	
United States Telephone Association	)	
Petition for Rulemaking	)	
	)	

MOTION TO FILE EX PARTE COMMENT AND
COMMENT OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

I. INTRODUCTION

Pursuant to a Notice issued by the Accounting and Audits Division of the Federal Communications Commission's (FCC) Common Carrier Bureau on March 13, 1998 (the

APPENDIX A

March Notice), the FCC seeks comment on proposed modifications to the ARMIS Service Quality Reporting Requirements. The March Notice seeks proposed comment on Switch Equipment Reporting, Transmission Routing Facilities Reporting, LEC Set-Up Reporting, and Additions and Book Cost adjustments.

Since issuance of the March Notice, the FCC proposed revisions in the Review of Accounting and Cost Allocation Requirements in Docket No. CC 98-81 and FCC 98-108 on June 17, 1998 (June Notice). The Pennsylvania Public Utility Commission (PaPUC) is submitting Reply Comments on the June Notice. The PaPUC moves to file this comment given the important role that both ARMIS and Cost Accounting serve in providing credible carrier-provided information to state commissions and the FCC.

Generally, the PaPUC supports the FCC's proposed revisions to provide more detailed information on network switching, routing, and transmission. However, the PaPUC believes a threshold should be established for when a LEC can avail itself of the proposed Set-up Time modification. Finally, the PaPUC opposes elimination of the Infrastructure Report requirements concerning access lines, access line gains, and total gross capital expenditures. The PaPUC's position is set forth in more detail below.

II. THE PENNSYLVANIA POSITION

1. The FCC proposes substantive revision to the switching, transmission and routing requirements in ARMIS. The FCC proposes to include Asynchronous Transfer Mode (ATM) switches in ARMIS along with Switched Multi-Megabit Data Service (SMDS) and Frame Relay Service (FRS) given the important role these play in facilitating high-speed data transmission using packed switched technology. The PaPUC supports this proposal. The PaPUC agrees with the FCC that changes in technology and the increased importance of high speed data transmission justify including these items in ARMIS. The PaPUC cautions, however, that the revisions to Accounting and Cost Allocations in Docket No. CC 98-81 and FCC 98-108 could undermine the government's ability to obtained detailed information about the financial treatment of these facilities, services, and technologies for interstate and intrastate purposes.

2. The FCC also proposes the disaggregation of Transmission Data in Table II of ARMIS to better monitor the deployment of advanced services in rural and non-rural areas on an MSA and non-MSA basis. The PaPUC strongly supports this proposal. Rural states such as Pennsylvania would have better information on the carriers' deployment of advanced technology, facilities, and services in our rural areas. The PaPUC further agrees with the FCC that use of the MSA is an important, but not

exclusive, means of defining "rural." The PaPUC urges the FCC to also consider using Census Bureau data to define this category. The PaPUC reminds the FCC that the revisions to Accounting and Cost Allocations in Docket No. CC 98-81 and FCC 98-108 could adversely affect the ability to obtain detailed information about the financial treatment of these facilities, services, and technologies for interstate and intrastate purposes.

3. The FCC further proposes to create a separate column for Coaxial Cable given its use as an alternative to copper or fiber, require more information on the Interoffice Use of Fiber for analog transmission, and require more information on Fiber Loop Use for analog transmission. The PaPUC supports these proposed revisions. Again, the PaPUC reminds the FCC that revisions to Accounting and Cost Allocations in Docket No. CC 98-81 and FCC 98-108 could undermine government's ability to obtain detailed information about the financial treatment of these facilities, services, and technologies for interstate and intrastate purposes.

4. The FCC next proposes to require more detailed information on Digital Loop Carrier (DLC), Integrated Digital Loop Carrier (IDLC), and Local Loop information on the ability to provide Internet access using the current public network. The PaPUC strongly supports these efforts. The PaPUC recognizes the role that DLC and IDLC play

in providing increased efficiencies in the public network by providing greater transmission with fewer paths. Moreover, the PaPUC also strongly supports more detailed information on the Local Loop ability to provide Internet access given the increased use of the public network for Internet access. Finally, the PaPUC also believes these efforts will be more important as the network becomes increasingly able to provide high-speed data services using packet switching instead of circuit switches. However, as with the other commendable revisions, the PaPUC is concerned that the revisions to the Accounting and Cost Allocation requirements contained in Docket No. CC 98-81 and FCC 98-108 could undermine the FCC's and states' access to reliable carrier-provided information.

5. The FCC proposes to eliminate the LEC Set-Up time reporting requirements given the deployment of SS7. The PaPUC supports this proposal with the qualification that elimination should be applied only when a carrier can demonstrate that the carrier has deployed a bright line percentage of SS7. The PaPUC suggests that a 75% deployment level be reached before the Set-Up Time requirement is eliminated. This encourages deployment of SS7 to avoid reporting burdens while allowing the FCC and the states to monitor SS7 deployment. That is especially important to rural areas and rural states such as Pennsylvania. However, the PaPUC again cautions the FCC that the

proposed revisions to the Accounting and Cost Treatment contained in Docket No. CC 98-81 and FCC 98-108 could undermine the delivery of reliable information.

6. Finally, the FCC proposes the elimination of TABLE IV in the Infrastructure Report showing data on access lines, access line gains, and total gross capital expenditures. The PaPUC strongly urges the FCC to continue requiring this information. There has been tremendous growth in access lines for Internet purposes and the public is growing increasingly interested in high-speed data transmission using packet-switching.

7. The PaPUC is particularly concerned, given recent allegations of alleged disinvestment in the network, that the states and the FCC continue to receive credible carrier-provided information to test the credibility of such allegations. The information provided to the FCC as part of the ARMIS, Accounting, and Cost Allocation requirements are indispensable in helping states such as Pennsylvania independently determine the validity of such claims. The PaPUC further reminds the FCC that the combination of Infrastructure Report eliminations and Accounting-Cost Allocation revisions could leave the governments without credible carrier-provided information. Such information is needed to independently test allegations of disinvestment or to promote the deployment of advanced telecommunications in rural areas.

8. The PaPUC thanks the FCC for providing it with an opportunity to submit this Comment as part of the PaPUC's Reply Comment in Docket No. CC 98-81 and FCC 98-108.

Respectfully submitted,

D.E. Screven

David E. Screven, Assistant Counsel
Pennsylvania Public Utility Commission

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Pennsylvania Public Utility Commission
Bohdan R. Pankiw, Chief Counsel
Pennsylvania Public Utility Commission

Dated: August 3, 1998

Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of BellSouth Telephone Company Proposal for Comparably Efficient Plan to Act as Sales Agent for Unaffiliated Alarm Service Providers	)))))))	DA Notice 98-1174

CERTIFICATE OF SERVICE

I, David E. Screven, hereby certify that I have on this 3d day of August, 1998, served a true and correct copy of the Reply Comment and Appendix A of the Pennsylvania Public Utility Commission (PaPUC) upon the persons and in the manner indicated below:

D.E. Screven

David E. Screven, Assistant Counsel
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